



Audit of the Leased Worker Program

Audit #99-10

Prepared by
Office of Inspector General

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Re: Final Report – Audit of the
Leased Worker Program; Audit
#99-10

This audit was performed pursuant to the Inspectors General's authority set forth in Chapter 20.055, F.S. The audit focused on determining whether the Leased Worker Program was used as a vehicle to circumvent a freeze on hiring. Our audit covered the leased worker program since its inception in FY96. Field work was conducted between January 15, 1999 and April 2, 1999. This report was prepared by Chris Flierl.

Sincerely,

Allen Vann
Inspector General

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Introduction

The Office of Inspector General was asked by the District's Attrition Management Group (the "AMG") to address various concerns regarding the District's leased worker program. The AMG reviews requests for leased and redirected positions as well as requests to re-fill vacant positions.

There are currently 103 authorized leased positions at the District. The primary concern of the AMG was why District Departments have requested that 37 leased positions be converted to regular positions, commonly called full time equivalents (FTE's). In response to these concerns, the AMG requested that the Office of Inspector General perform an audit of the leased worker program.

Background

During the FY95 budget development process the issue of "time limited" positions for collecting and analyzing information pertaining to the Everglades project was raised. The rationale for this was that the skills required from one phase of the project to another would vary and "time limited" positions would allow the District flexibility in obtaining the necessary skills required without hiring additional District employees.

Time limited (leased) positions were not approved in the FY95 budget. However, the Governing Board approved entering into a contract for leased workers at its August 1995 meeting. Negotiations with the two top ranked leasing firms who proposed for the contract were unsuccessful. On November 5, 1996, the District entered into a contract with the third top ranked firm, Southeastern Resources, Inc., (Southeastern) to provide the District with leased workers. Leased workers were intended to be project specific and term specific supplementary staff who assist with District projects with no anticipation of keeping them on beyond completion of the project. The term of the contract was October 31, 1996 through September 30, 1999.

Also occurring at this time, District Management, at the direction of the Governing Board, established a goal to reduce the number of employees from 1,651 to 1,550 by the end of FY98. Departments were being asked to reevaluate their organizations to look for opportunities to hire leased or contract workers as opposed to regular employees. However, there was still a need for resources to perform activities on ongoing projects. Leased workers and contract workers are not employees and as such, are not

included in the District headcount. The table that follows depicts the number of authorized FTE's and the number of authorized leased positions for FY93 – FY99.

Fiscal Year	Leased Positions	Regular Positions	Total
FY93	0	1517	1517
FY94	0	1620	1620
FY95	0	1651	1651
FY96	17	1651	1668
FY97	55	1651	1706
FY98	89	1676	1765
FY99	103	1735	1838

Source: FY 98 and FY99 Budget In Brief. Does not include overfill positions or CES workers for which there are currently 24 and 57, respectively.

As indicated by the above table, the District did not meet its workforce reduction goals. However, the District was successful in freezing the number of authorized regular positions from FY95 – FY97. Conversely, during this same time period the leased worker program grew to 55 leased workers by the end of FY97. In FY98, the authorized District workforce started expanding again and the number of leased workers increased 62% from 55 in FY97 to 89 in FY98. Guiding the effort to check the growth of the District workforce is the Attrition Management Group (the “AMG”).

Under the terms of the contract with Southeastern the parties act as “co-employers” of the leased employees, who are the joint responsibility of the District and Southeastern. However, Southeastern is considered the primary employer (or employer of record).

The District takes a very active role in the leased worker program. For example, the District performs all recruitment related activities including job posting, applicant screening, interviewing, reference checking, and medical and drug testing. Leased workers are provided with workspace, equipment and District uniforms, if required, and District supervisors conduct performance evaluations of leased workers. Leased worker personnel and pay rate information is maintained in the District's Human Resources Information System and they are insured under the District's professional liability and automobile programs. Also, leased workers attend some District training courses.

Additionally, the District has negotiated, in the contract, compensation and benefits for leased workers that are very similar to regular employee

compensation and benefits. Leased workers receive a base salary comparable to regular employees with similar skills, performance and experience. Leased workers and employees both receive, at no cost, basic life insurance and accidental death and dismemberment insurance (AD&D). The District pays 80% of the basic HMO medical and dental insurance premiums for leased workers but pays nothing towards any dependent coverage that may be elected. The District does make a contribution towards dependent coverage elected by employees. While not entitled to Florida Retirement System benefits, leased workers do receive a contribution equal to 10% of their gross salary into a money purchase retirement plan¹ after one year of service. Leased workers, like District employees, receive 10 paid holidays, 1 personal holiday and two one-half day discretionary days as declared by the Executive Director. After one year of service, leased workers accrue 104 hours a year of personal time² to be used for illnesses and vacations. District employees, with less than 5 years service, receive 104 hours of vacation annually plus an additional 104 hours of sick leave annually. Regular employees are also eligible for the Sick Leave Incentive Program which provides for a cash payment to employees for up to 40 hours a year.

As can be seen, the District has taken significant measures to put leased workers on par with regular employees. The contractor, on the other hand, is responsible for the following:

- Unemployment Compensation insurance,
- Workers' Compensation claims,
- paying leased workers,
- withholding and paying payroll taxes,
- making payments to leased worker's money market pension plan,
- providing general liability insurance, and
- providing health, dental and vision insurance.

For providing these services, the contractor is entitled to a management service fee equal to 1.75% of the gross salary of the leased worker. The District reimburses Southeastern for all direct payroll costs, e.g. wages,

¹ Allows the employer to contribute a maximum of 25% of each participant's compensation or \$30,000, whichever is less. Once the percentage is determined contributions are mandatory, not discretionary. Participants are not taxed on the contributions until the money is withdrawn.

² For the first year of service leased workers accrue 80 hours of personal time.

payroll taxes, insurance premiums, etc., based on contractual mark-up rates and/or actual cost.

Due to delays in awarding the leasing contract, 14 temporary personnel, who were scheduled to become employees of the leasing firm, were placed under individual employment contracts with the District in May 1996. In October 1996, the employment contracts were terminated and the temporary employees were transferred into the leased worker program.

Criteria for Leased Workers

The Governing Board approved the leased worker contract which established the following guidelines for leased workers:

- The positions must be for a minimum of one year and must be anticipated to terminate on a specific date tied to the completion of a project.
- The skill level required of leased workers should be such that supervision by District staff is minimal.
- Each leased worker's job classification, salary, projects and project duration will be recommended by the requesting department and approved by the Executive Office to ensure that they are within the scope of the program assignments.
- Leased workers will be recruited according to District recruitment policy.
- The base salary paid to the leased employee will be the same as District employees in the same job classification.

In addition to these guidelines, a memo from the Deputy Executive Director to the Office/Department Directors, dated January 7, 1997, stated that the AMG agreed that justifications for leased positions must include the following:

- whether the position is to satisfy an existing need or is required for a new initiative,
- the name of and description of the program or project, the budget priority of the program or project and the specific date on which it will end,
- identify alternatives, considering what lower priority activity would not be accomplished without this position,
- how the position will be funded, and
- an organization chart of the function in which the position will be located.

Objectives, Scope and Methodology

In order to determine if managers complied with the limitations established for the leased worker program and in order to identify reasons why the departments now want to convert 37 leased positions to regular positions, we:

- reviewed positions for all leased workers who subsequently accepted regular positions,
- determined if leased workers are performing assignments limited to those for which the position was originally created, and
- performed a limited cost benefit analysis of the program.

We have also included in our report other matters regarding the leased worker program that came to our attention.

The scope of our audit was the leased worker program from inception through January 1999.

In order to meet our objectives we performed the following activities:

- reviewed the leased worker contract,
- reviewed AMG minutes,
- reviewed reports generated by Southeastern Resources, Inc.,
- selected and tested a sample consisting of 14 of 31 leased workers who subsequently became District employees,
- located and reviewed justifications for leased positions and FTE positions that leased workers filled,
- made inquiries, as necessary, of the District's Human Resource Information System,
- reviewed documentation regarding the leased worker program, and
- interviewed appropriate District personnel.

Our audit was conducted in accordance with government auditing standards.

Findings and Recommendations

Summary

Of the 14 leased employees that we tested, we found that half of them became District employees as a result of normal turnover, meaning that a District position became vacant and was filled by a leased worker. Five of the leased workers became District employees because the leased positions that they occupied appear to have been created for the purpose of satisfying a long-term need. These long-term needs otherwise would not have been fulfilled because of the hiring freeze that was in effect. For the remaining 2 positions it appears that a change in scope of the leased position contributed to those leased workers becoming regular employees. We concluded that in large part, the leased worker program was inappropriately used as a vehicle to circumvent a freeze on hiring.

Other matters regarding the leased worker program came to our attention during the course of our testing that bear mentioning. Justifications for leased positions did not always comply with the guidelines established for the program. We noted instances where leased positions were retained beyond the need for the position. In the area of project management, we noted opportunities for improvement in leased worker record maintenance and found control weaknesses in invoice verification. With regards to District recruitment efforts, we noted that leased workers are allowed to apply for internally posted District positions. We also noted a high occurrence of waivers of recruitment granted so that leased workers can become regular District employees. Lastly, we performed a comparative analysis of the cost of a leased worker versus the cost of a District employee and found that there is still a cost benefit to be derived from using a leased worker.

Our detailed findings and recommendations are as follows:

Leased Positions Were Requested to Circumvent a Hiring Freeze

In January 1999, the AMG Leased Worker Review identified 37 leased worker positions (37%) that District department management now wants to convert to regular District positions.

In order to gain insight as to why department management would now want to convert leased positions to regular positions, we analyzed instances where leased employees have become District employees. As of January 31, 1999, we identified 31 District employees who were formerly leased workers. Of these 31 employees, 14 held leased positions in the same division with the same or a similar job title. We further analyzed these 14 employees to determine what the circumstances were that resulted in them becoming District employees.

Based on the results of our testing, we concluded that 5 of the 14 (36%) leased positions were intended as a means of fulfilling a long term need. Of these 5 positions, 3 leased positions were eliminated after the person became a regular employee, and two are positions that department management now desires to convert to regular positions.

In all 5 instances, the 4 Division Directors who justified the leased positions stated that it was their original intent to obtain a regular position as opposed to a time-limited one. In all cases the hiring freeze was cited as the reason that a leased position was created. Other factors considered are contained in a matrix in the appendix of this report.

Recommendations:

- 1. Leased workers, who are performing work that is ongoing in nature, should be considered for conversion to regular employees during the FY2000 budget process.**

Management Response: Management concurs with the recommendation.

Responsible Department: Executive Office

Estimated Completion Date: October 1, 1999

2. Discontinue the practice of requesting and approving leased workers for long-term needs.

Management Response: Management concurs with the recommendation. The Attrition Management Group (the “AMG”) has established criteria that a leased worker position must be for special projects and the position will be required for a maximum of three (3) years.

Responsible Department: Executive Office

Estimated Completion Date: Completed

Auditor’s Comment: We acknowledge that the criteria are in place and will perform follow-up procedures at a later date to determine compliance with the criteria.

**Duties and Responsibilities of
Leased Workers Expanded,
Resulting in a Regular Position**

An increase in the duties and responsibilities of two leased workers appears to have resulted in them becoming regular employees. In both instances we observed that the leased worker brought other skills, perspectives, or technical expertise to the division, work unit, or team which resulted in an expansion of duties. One leased worker brought computer skills to the division and another brought an engineering perspective to a team that was comprised mainly of scientists. When leased worker’s duties and responsibilities are expanded beyond the original scope of the position there is an increased likelihood that the worker will remain beyond the end of the project.

Recommendation:

3. Limit the expansion of duties for leased workers.

Management Response: Management concurs with the recommendation. When duties change the changes will require Department Management and AMG approval.

Responsible Department: Executive Office

Estimated Completion Date: May, 1999

Justifications for Leased Workers Not in Compliance with Program Criteria

We noted leased worker positions were approved without justifications or with justifications that did not comply with leased worker guidelines. The guidelines for authorizing leased positions state, among other things, that a leased position:

- must be for a specific project,
- must be required for a minimum of one year (not to exceed 3 years), and
- will terminate on a specific date when the project is completed.

Written justifications were not located for 6 of the 14 former leased workers we selected for our review. In addition, of the 8 remaining positions for which justifications were obtained, 3 justifications gave no indication that the positions were intended to be time limited. For these 3 positions, there was no mention of a specific date or specific project that the positions were tied to as required by the leased worker guidelines.

Of the 6 positions for which no justifications could be located, 5 positions were part of the pool of temporary workers who initially transferred into the leased worker program at its inception. We have been told that justifications were never prepared for any of these positions.

Further, apart from our sample, we identified an additional 4 former members of the secretarial pool who became regular employees. The purpose of the secretarial pool is to provide temporary clerical support to departments due to scheduled or unscheduled absences. In the past, the secretarial pool was comprised of temporary workers, however, the pool has since been moved into the leased worker program. We reviewed the justification for secretarial pool (there are 6 positions in total) positions and noted that there is no mention of these positions being time limited or tied to any specific project.

We also noted two other instances where a leased position was created for the purpose of substituting for a regular employee who was on extended medical leave. The need for both positions was short-term in nature, less than one year. The guidelines state that leased worker positions must be for a minimum of one year. Both of these leased workers subsequently became regular employees.

Recommendations:

4. **The AMG should not grant approval for leased positions without a written justification that adheres to the guidelines established for leased positions.**

Management Response: Management concurs with the recommendation. A form will be developed and placed on the IWEB for managers and supervisors to request leased positions. The Department Directors must approve the request prior to AMG approving the request.

Responsible Department: Office of Business Resources,
Human Resources

Estimated Completion Date: May, 1999

5. **The AMG should consider expanding the criteria for the leased worker program to include the secretarial pool.**

Management Response: Management concurs with the recommendation. The Inspector General has noted the success of the program as a feeder group for filling vacancies and offsetting demands for administrative support during peak periods. It is more cost-effective (approximately 14% benefits and markup for leased workers verses 50% for agency temporaries).

Responsible Department: Executive Office

Estimated Completion Date: June, 1999

Leased Positions Were Not Eliminated in Accordance with the Leased Worker Guidelines

The guidelines for leased workers state that “the positions must be ... anticipated to terminate on a specific date tied to the completion of a project.” The District practice of redirecting leased positions appears to be contrary to the leased worker guidelines.

In September 1997, a leased Real Estate Specialist position was approved for the purpose of continuing the work of a District Real Estate Specialist who was out on extended medical leave. The leased position was filled, the District Real Estate Specialist returned to work, another regular Real Estate Specialist position became vacant, and the leased worker was appointed to the vacated position. The now vacant leased Real Estate Specialist position was re-recruited, an offer was made, but it was rejected. Shortly thereafter, the AMG in March 1998 approved a request to convert the vacant leased Real Estate Specialist position to a leased Senior Title Examiner position.

On May 28, 1998, the AMG approved a request to redirect a vacant leased Inspector to a leased Computer Technician.

In both cases it appears as though the leased position was kept beyond the expiration of the need for which it was justified. Redirecting a position essentially means that circumstances have significantly changed such that the position, as originally justified, is no longer necessary. The AMG routinely evaluates vacant regular positions to assess the continued need for the positions. If it is determined that a position is no longer needed then the AMG will redirect it to where it is needed. This process of questioning the need for vacant regular positions is a necessary and vital function of the AMG. However, we do not believe that this practice translates well to the leased worker program. The leased worker guidelines do not provide for keeping a pool of vacant leased worker positions for redirection. Also, the practice of keeping vacant leased worker positions inflates the size of the program and may undermine the time limited intent of the program.

Recommendation

- 6. Eliminate leased positions immediately after the need for which they were justified no longer exists.**

Management Response: Management concurs with this recommendation. If the end date for a position is to be extended, it must be re-justified through the form mentioned in Recommendation 4.

Responsible Department: Executive Office

Estimated Completion Date: May, 1999

Opportunities Exist to Improve Leased Worker Project Management

We noted two areas where the project management of the leased worker program could be improved. One in the area of record maintenance and the other in the area of invoice verification.

There is no central location or responsibility center for the maintenance of leased worker records. Some of the justifications were located in the Attrition Management Group (AMG) minutes, departments helped us locate other justifications, and some were located in the leased position recruitment files. Having a complete history of a leased position in a central location will improve accountability and enable the AMG to better make decisions when departments request that positions be re-filled, extended, or converted to regular positions.

We noted that aside from verifying the number of hours worked for each leased worker, none of the invoiced amounts are checked for compliance with the contract or for accuracy. Such other amounts include the hourly rate, payroll taxes, unemployment insurance, workers' compensation, health insurance, and the money purchase retirement plan.

We also noted two instances where the hourly rate billed was different from the hourly rate per District records. In one instance, the invoice charged the District \$14.35 per hour for a leased worker when District records showed that the worker should have been paid at a rate of \$16.50. This problem was identified in the past when 2 leased workers were being billed to the District at twice their hourly rate.

Recommendations:

7. **Maintain leased worker files centrally in the Human Resources Division according to position number. At a minimum, each file should contain the justification for the position, the AMG minutes noting approval of the position and the *Personnel Action Form* evidencing the hiring of the leased worker.**

Management Response: Management concurs with the recommendation. Unapproved requests will be maintained separately in the AMG file. Approved requests, AMG minutes and the Personnel Action Form will be maintained in the applicant tracking software for the position.

Responsible Department: Office of Business Resources,
Human Resources

Estimated Completion Date: May, 1999

8. **Invoices from the contractor should be reviewed by the Human Resources Division and/or the Accounting Division for the following:**

- **compliance with the contract for all mark-up costs,**
- **verification of rate of pay,**
- **verification of eligibility for the Money Purchase Retirement Plan,**
- **verification of enrollment in medical and dental insurance plans,**
- **hours worked, and**
- **mathematical accuracy for computed amounts.**

Management Response: Management concurs with the recommendation. Accounting has verified hours paid since the inception of the program. The Payroll section of Accounting will now modify procedures to verify all other elements of the contractor's invoice. Any exceptions or differences will be forwarded to Human Resources for resolution. The contractor was to establish a report to verify the rate of pay and will be advised of this commitment.

Compliance with the contract for all mark-up costs has been performed by Human Resources since the inception of the program.

Responsible Departments: Office of Business Resources,
Human Resources
Office of Financial Management

Estimated Completion Date: May, 1999

Leased Workers Treated Like Employees for Recruitment Purposes

Recruitment is frequently waived when leased workers become regular employees. Recruitment was waived for 10 of the 14 leased workers that we reviewed, who became regular employees. When recruitment is waived there is no pool of candidates formed from which to select the most qualified individual. A person is identified and appointed to the position without competition. Waivers of recruitment are to be granted under unusual circumstances only.

We also noted that leased workers who are with the District for at least 6 months are eligible to apply for District positions that are posted internally. According to the District Recruitment policy, an internal recruitment is "the active solicitation of District employees to fill an open position."

Because of the close relationship that the District has instituted with leased employees, it is natural that District hiring managers and supervisors tend to view them as regular employees. However, leased workers are not District employees. Treating them as such inappropriately puts leased workers on equal footing with District employees.

Recommendation:

9. **The Human Resources Division should discontinue the practice of allowing leased workers to apply for internally posted positions and waiving recruitment for leased workers for regular District positions.**

Management Response: Management concurs with this recommendation. Leased workers and departments will be advised that they must compete at level 2 recruiting of the new recruiting process (database and internal applicants). Waivers will not be necessary under the new recruiting model.

Responsible Department: Office of Business Resources,
Human Resources

Estimated Completion Date: June, 1999

Cost Benefit Analysis

We prepared an analysis comparing the cost of a leased worker to the cost of a regular employee to determine if there was any cost benefit associated with leased workers. We chose for our comparison a Senior Scientific Associate position because that is the most common leased position used at the District. For ease of comparison we assumed that both the leased worker and the District employee:

- were hired at the midpoint of the annual salary range,
- were non-smokers,
- had over 1 year of service,
- elected health, dental and vision insurance³,
- took all vacation time earned,
- took all sick leave earned (pertains to District employee only), and
- worked no overtime.

As illustrated in the table that follows, there is an estimated cost savings to the District of approximately \$3,500 or \$3.32 per hour when a leased Sr. Scientific Associate is used versus a District employee. The primary reasons for the cost difference may be attributed to the retirement contribution requirements and the cost of employee benefits, particularly medical insurance. The District is required to contribute 16.45% of the employee's gross wages to the Florida Retirement System while the leased worker receives a 10% contribution to the Money Purchase Plan after one year's service. The cost of medical insurance for District employees is approximately 3 times that of leased workers. Also note that leased workers are more available because they receive no sick leave benefit whereas District employees accrue 104 hours per year.

³ For the District employee a composite rate was applied that reflects health insurance elections by all District employees. For conservatism, a composite rate was not applied to the leased workers because we could not verify how many leased workers actually received such insurance.

**Comparison of Leased Sr. Scientific Associate to
District Sr. Scientific Associate**

	Leased Worker	District Employee	Added Cost/ (Cost Savings)
Annual Salary	<u>\$ 35,692</u>	<u>\$ 35,692</u>	<u>\$ 0</u>
Payroll Taxes:			
S.S. and Medicare	\$ 2,730	\$ 2,730	\$ 0
Unemployment	<u>154</u>	<u>0</u>	<u>154</u>
Subtotal	<u>\$ 2,884</u>	<u>\$ 2,730</u>	<u>\$ 154</u>
Contractual / Required Costs:			
Worker's Comp.	\$ 168	\$ 42	\$ 126
Retirement	3,569	5,871	(2,302)
Mgmt. Fee	625	0	625
Basic Life	47	120	(73)
AD&D	<u>21</u>	<u>9</u>	<u>12</u>
Subtotal	<u>\$ 4,430</u>	<u>\$ 6,042</u>	<u>\$ (1,612)</u>
Employee Elected Benefit Costs:			
Medical Ins.	\$ 1,097	\$ 3,034	(1,937)
Dental Ins.	0	178	(178)
Vision Ins.	0	36	(36)
Dental & Vision	<u>111</u>	<u>0</u>	<u>111</u>
Subtotal	<u>\$ 1,208</u>	<u>\$ 3,248</u>	<u>\$ (2,040)</u>
Total Costs	<u>\$ 44,214</u>	<u>\$ 47,712</u>	<u>\$ (3,498)</u>
Productivity			
Annual Hours Worked	1,888	1,784	104
Cost / Hour	\$ 23.42	\$ 26.74	\$ (3.32)

We have not included in our analysis the additional administrative costs associated with the program. Such costs include the time it takes to prepare and provide payroll information to the contractor. Upon receipt of an invoice from the contractor, the hours per the invoice are compared to our time and attendance records. Until the contractor sends an invoice that reflects the correct number of hours the District does not pay the invoice. As a result, no invoices have been paid during calendar year 1999.

Because administration of the contract requires that data be sent to and from the contractor, programming support is necessary. The Payroll Unit reports that at a minimum, 20% of their time is spent with the leased worker program. This is substantial considering that the leased worker program represents approximately 5.6% of the entire workforce. Additionally, much time has been spent trying to convert our payroll data to a format that the contractor can use. One Information Technology Department Staff Systems Analyst reported that approximately 5% of her time is devoted to supporting the leased worker program.

The Human Resources staff acts as a liaison between the leased workers and the contractor. HR reports spending considerable time coordinating and administering the leased worker benefits program.

While administrative time appears relatively high, most of it is incurred due to problems with the contractor's payroll system. It is unable to interface with the District system. This problem has existed for two and a half years since the inception of the leased worker program. We would not expect this to be an inherent cost in the leased worker program. Therefore, including such costs in the analysis would not accurately portray the cost of a well run leased worker program.

Recommendation:

10. The Human Resources Division should perform an evaluation of the current contractor's performance. Special attention should be paid to the ability of a future contractor's systems to interface with District payroll systems.

Management Response: Management concurs with the recommendation. The current contractor's performance has been informally evaluated and will be evaluated in more detail when a Request for Proposals (RFP) evaluation criteria are established.

The RFP for a vendor is in process. Criteria to ensure accurate invoicing will be part of that proposal and a vendor selected who can satisfy the invoicing requirements of the District.

Responsible Department: Office of Business Resources,
Human Resources;
Office of Financial Management;
Information Technology,
Project Management

Estimated Completion Date: October, 1999